

Silverwood Industries Limited Annual Report 1980

AR21

Silverwood Industries: Canadian & U.S. Operations
Patterns of Growth in 1980



**MAC'S CONVENIENCE
STORES INC.**

17 offices across Canada

Retail Outlets

British Columbia 63
 Alberta 101
 Saskatchewan 5
 Manitoba 28
 Ontario 432
 Quebec 27



FARRVIEW LIMITED

36 Retail Outlets
 in Michigan



**HOP-IN FOOD STORES,
INC.**

Retail Outlets

Virginia 86
 North Carolina 34
 Tennessee 27



**SILVERWOOD DAIRIES
LIMITED**

Dairy Processing Plants

British Columbia

Victoria - milk, ice cream
 and by-products
 Vancouver - 1 milk and
 by-products, 1 ice cream

Manitoba

Winnipeg - milk, ice cream
 and by-products

Ontario

Ottawa - milk
 Peterborough - milk and ice
 cream
 North Bay - milk
 Toronto - 1 milk,
 1 milk and by-products
 London - 1 milk and
 by-products, 1 ice cream



**BASKIN-ROBBINS
31 FLAVOUR
ICE CREAM STORES**

3 District Offices

Retail Outlets

British Columbia 3
 Ontario 91
 Quebec 1



**LONDONDERRY
DISTRIBUTORS, INC.**

Processing Plant

Toronto, Ontario



**RESEARCH AND
DEVELOPMENT
LABORATORY**

London, Ontario



**THREE CROWNS
RESTAURANTS**

Toronto, Ontario



For Silverwood Industries, 1980 was a year of unparalleled expansion. This was the year Silverwood Dairies purchased the Ontario Dairies Division of Borden; this was the year that consolidated the success of the new Mac's store design; this was the year that established Baskin-Robbins in Quebec and the West; this was the year that opened up exciting new involvement in the U.S. A decade of promise and potential is waiting for us.

Financial Highlights

Year ended December 28, 1980 and December 30, 1979

	1980	1979
Sales	\$431,676,420	\$315,427,884
Net income for year	\$ 3,207,465	\$ 2,982,629
Earnings per Class "A" and "B" shares		
Net income for year	\$ 2.38	\$ 2.22
Dividends paid.....	\$ 873,839	\$ 806,620
Rate per Class "A" and "B" shares	\$.65	\$.60
Retained earnings re-invested in business to date	\$ 26,686,076	\$ 24,352,450
Shareholders' equity.....	\$ 34,027,393	\$ 31,693,767
Shares outstanding		
Class "A".....	903,158	903,158
Class "B".....	441,212	441,212
Equity per Class		
"A" and "B" Share	\$ 25.31	\$ 23.58
Funds from operations.....	\$ 11,261,610	\$ 7,686,941
Working capital.....	\$ 7,791,088	\$ 7,176,820

To our Shareholders:

For Silverwood Industries, 1980 was a year of unparalleled expansion. It was a year in which management directed the thrust of the company into the profitable opportunities of the Eighties. It was the year Silverwood Dairies purchased the Ontario Dairy Division of The Borden Company, Limited, the year that consolidated the success of the new Mac's store design, the year that established Baskin-Robbins in Quebec and the West, the year that opened up exciting new involvement in the Convenience Store business south of the border in Virginia, North Carolina, Tennessee and Michigan. In short, it was the year in which we developed new horizons and potential opportunities for all our operating divisions and for our people.

Fiscal 1980 brought major change to the Silverwood organization. Four acquisitions were completed in the first quarter of the year: FarrView Limited, a small chain of convenience stores in Michigan; Three Crowns Restaurant Group, two family-type restaurants in Toronto, Ontario; a 33% interest in Hop-In Food Stores, Inc. of Roanoke, Virginia (a 147 store chain of convenience stores in Virginia, Tennessee and North Carolina); and the operating assets of the Dairy Division of The Borden Company, Limited. Pertinent information on all of these acquisitions can be found in the section "Notes to the Consolidated Financial Statements" and the "Operations Review" of each of our divisions.

All of these opportunities had been in our forward planning for some time, but by coincidence, climaxed at about the same time. Realistically, the rapidity of the acquisitions placed a great deal of pressure on the capable people base that had been structured over the last few years. They responded admirably. These acquisitions are directed towards an improvement over time of our return on equity in each of our divisions, and they attempt to place all our activities within significant growth areas of the economy.

The expansion of our Convenience Store interests into the U.S.A. has dramatically opened up new vistas for Silverwood in the Eighties. A great deal of executive time over the last four years had been focussed on a thorough market study of the convenience store market in North America, and culminated, in March 1980, in the acquisition of a 33% interest in Hop-In Food Stores, Inc., Roanoke, Virginia, through the issuance of its treasury stock.

Our studies showed our strength in the convenience store market was our demonstrated ability to manage tightly controlled, highly innovative stores over vast geographical areas. Encumbered

by Canada's high occupancy costs—and without the advantages of the beer and wine sales of most American markets—we, nevertheless, have managed to produce profit returns on equity invested in this business sector comparable with our American colleagues.

Thus, our entry into the Michigan market in a small way with the acquisition of FarrView Limited, and the ownership involvement with Hop-In Food Stores, Inc. in Virginia, Tennessee and North Carolina, have opened up major opportunities and will serve as a springboard for expanded scope and growth in the total North American retail marketplace.

The entry into the food-away-from-home market, with the acquisition of Three Crowns Restaurant Group in Toronto, came about after many months of discussion with Steak and Ale Inc., of Dallas, Texas, a wholly-owned subsidiary of the Pillsbury Company. Silverwood had felt for some time that this field was a natural outgrowth for us, arising from the experience built within the company in food research, food handling, financial systems and real estate knowledge and coverage across Canada. This food sector has been severely affected by the economic climate in Canada in 1980 and the inflationary environment has brought a slow-down in the industry generally. Although not entirely happy with the immediate prospects of Three Crowns, we remain confident about the future of this segment of the industry.

Unquestionably, the acquisition of the Ontario Dairy Division of The Borden Company, Limited has had the greatest immediate impact on Silverwood. The addition of approximately \$70 million of dairy sales in the Ontario market—with its attendant production and distribution problems—has been more difficult to assimilate than we expected. The integration of The Borden Dairy Division has taken longer and has had a greater negative effect on our operating efficiencies and costs than we were able to forecast. We anticipate that there will be a continuing negative impact on our Dairies Division results during the first quarter of 1981, thus lowering our previous expectations.

The completion of this purchase, although contemplated over some period of time, came about rather quickly and did not allow for as much implementation planning as we might have wished. However, the opportunity was seized because it enabled us to increase our market share within Ontario. When integration is completed, the productive capacity within the industry will have changed considerably. We remain very enthusiastic about this timely opportunity to upgrade our production and distribution efficien-

cies and to further demonstrate our capabilities in the development of imaginative approaches to the changing marketplace for dairy foods.

Subsequent to the year-end, Silverwood agreed to purchase 15.6 acres of land and buildings, situated at Don Mills, Ontario, from The Borden Company, Limited. This excellent property has been the site of Borden's main production plant in Toronto and it will give Silverwood the flexibility of time to plan its future production needs and marketing opportunities.

In accordance with a directive from the Ontario Securities Commission, your Board of Directors has determined to record the operations of our business in two classes; that of the Food Processing Group and the Retail Group. In the "Financial Operations in Review" section you will note the addition of audited information with respect to these classes under the Schedule of Segmented Information.

Consolidated Sales for 1980 reached a record \$431,676,420, an increase of \$116,248,536. A substantial portion of the increase of 36.85% resulted from business acquisitions during the year. Silverwood Dairies' sales for 1980 of \$212,589,426 provide a solid base for future growth. Unfortunately, because of the operations integration within the Ontario dairy sector, it has become impossible to identify the specific sales increase in that area arising from new business. Our convenience store sector continues to grow despite the economic slowdown evident in many parts of the Canadian scene with Mac's recording an increase of 15.73% in sales to \$218,841,625.

Consolidated Net Income from operations of \$3,207,465 compares with \$2,982,629 of a year ago. This year's figure includes \$200,090 of equity income arising from our interest in Hop-In Food Stores, Inc., of Virginia. Although the consolidated results are somewhat lower than anticipated, they represent a return to shareholders of \$2.38 per share, the largest of any one year in Silverwood history, as compared with a return of \$2.22 per share in 1979. It is evident that the large increase in sales activity for the Company has not as yet reflected itself in the bottom profit line. However, the potential for improvement is amply evident when the efficiencies of production and distribution are finally realized.

In overview, 1980 was a difficult operating year and yet one has to be pleased with the performance of the majority of our operating divisions. The Retail Group, newly formed in the spring of 1980 under the direction of Robert S. Maich as Executive Vice-President Retail Group, has continued to show dynamic leadership in all of its varied sectors.

Mac's Convenience Stores expanded its store base by 25 net additions with a total of 656 in six provinces by year-end. Its numerical leadership of the industry was accompanied by sales gains well in excess of the inflationary increases within the economy and profit contributions which provide impressive returns on the equity invested within that division.

The acquisition in January of FarrView Limited in Michigan provided the first entry of our Retail Group south of the border. Although Michigan was recognized as an economic market in distress, the opportunity was exercised to gain experience for our convenience store people in a market outside Canada. They rose to the occasion and with the total co-operation of the acquired management group, have rationalized the store structure, installed and tightened operating controls and are in position to expand the store and sales base. A return to a moderately healthy economy in Michigan will be welcomed by this enthusiastic management group.

Baskin-Robbins continued its dramatic leadership in ice cream retailing with the addition of twenty stores, making a total of 95 in operation in three provinces. Much effort was expended in 1980 in increasing the strength and structure of its operational management team with particular emphasis on regional structures to develop the base for future expansion in British Columbia and Quebec.

The acquisition of our interest in Hop-In Food Stores, Inc. of Virginia has already been described in detail. Although we are experiencing a current softness in the economy in which they operate, we are very pleased with the development in this area and look forward to the expansion of this group under the very capable leadership of its president, John M. Hudgins, Jr.

In the food processing group, Londonderry Distributors Inc. has continued its sound growth pattern of former years. Sales increased by 12.9% to \$4,662,626 in the very competitive market of aseptically filled fruit and vegetable juices and hot pack juices and drinks.

Silverwood Dairies Limited makes up the balance of our Food Processing Group and is the major component of that segment. The Western Canada Division of Dairies is made up of operations in Winnipeg, Manitoba and Vancouver and Victoria, British Columbia. Although undergoing some problems through management restructuring due to retirements at senior level, the division has experienced its best year for some time in both sales and operating profit levels.

As mentioned earlier, the Ontario division of Silverwood Dairies has been totally engrossed

with the integration and absorption of the Dairy Division of Borden. The decision to proceed with the purchase was a difficult one because it was realized that the acquisition might have a negative effect on profits in the immediate year after such a long climb to profitability by Silverwood Dairies. Yet strategically it was necessary to proceed. The 1980 financial results are less than satisfactory and in fact disclose an operating loss. Yet management remains confident that they will emerge immeasurably stronger and as a significant factor in the market place. The integrated base with efficiencies restored will provide a springboard for sound profitable growth in the future.

In Silverwood Industries, we remain totally committed to the premise that a company is only as strong as its people base. We have stated previously that a company's success is as good or as indifferent as its people. It's simply a matter of having good people highly motivated by the opportunities available to them.

The success of Silverwood in the last few years is due to people and the availability of entrepreneurial opportunities within the organization which have given them the chance to demonstrate their individual abilities through high levels of performance. This has been most in evidence in our Retail Group where the opportunities are more easily defined.



The Dairy division and its people have conversely been under some great pressures in attempting to merge two sizeable operations in a relatively short space of time. However, because of their fortitude, order and control are emerging and with them the opportunities for individuals within an increasingly decentralized management environment.

On September 26, 1980, your Board of Directors restored to previous levels the regular quarterly dividend of the Company with a declaration of 20¢ per Class "A" and "B" share payable January 2, 1981 to shareholders of record as of November 28, 1980. This brought the total payment in 1980 to 65¢ per issued share with an annualized rate of 80¢ per issued share.

At the Annual meeting in 1980, Mr. C.L. Tulloch retired from the Board of Directors, having served in that capacity since 1969 and as an employee from 1937 to 1975, latterly as a Vice-President. Mr. Tulloch made a great contribution to the Company and to the Board over those years and we are deeply appreciative of his service. He was appointed as Honorary Director at the subsequent meeting of the Board.

In keeping with the commitment of management through its control of the Voting Trust of the Corporation to strengthen and increase the representation of external people on the Board, we are pleased to record the nomination and election of Mr. J. Trevor Eyton, Q.C. to our Board of Directors. Mr. Eyton is President, Brascan Limited and a partner in Tory, Tory, Deslauriers & Binnington, Toronto, Ontario. He is a valued addition and we welcome his in-depth knowledge of the Canadian business scene.

In closing, I want to repeat that for Silverwood Industries, 1980 was a year of unparalleled expansion. It opens up for our loyal employees, our dealers and franchisees and our shareholders a decade of promise and potential. The opportunity is waiting for us and I believe we are ready.

Chairman of the Board
President & Chief Executive Officer

The growth which has secured Mac's leadership position in the Canadian convenience store industry continued through 1980, a year which brought record results in both sales and profits. These new levels of profitable growth of the company and its network of independent store operators, were due to two important factors...the significant growth in the number of retail stores from 631 in 1979 to 656 at the end of 1980, and the gratifying increase in the market share of our existing stores despite a sluggish economy and a market of limited buoyancy. This increase was common to most of Mac's operating areas in Western Canada, Ontario and Quebec. Sales for the year reached a record \$218,841,615, up \$29,748,000, or 15.73% over the previous year. And this growth was real growth in that it exceeded price increases due to inflation.

Many factors contributed to this year of success. For example, the 4% increase in the number of stores was accomplished at a time when competition for quality real estate sites was particularly intense due in part to reduced housing construction which affected the volume of commercial opportunities coming on stream. 53 new locations were opened in 1980 and 28 marginally profitable locations were closed, giving Mac's a net increase of 25 stores. At year-end, 197 stores were in operation in the four Western provinces, 432 in Ontario, and 27 in Quebec.

Growth since the early Seventies has been phenomenal. Not only for Mac's as a company, but for the individuals within the company. The person joining Mac's today—in whatever capacity—can look forward to great opportunity. The rewards are here, if you work for them.

Stan Hughes

The 15.73% sales increase, and the real market share growth this figure represents, resulted directly from marketing strategies tuned to the needs of today's Canadian consumer. Expanded media advertising to project Mac's new image,

Stan Hughes, who started with Mac's in 1968 as a part-time employee, is today a Divisional manager with responsibility for 160 stores in an area extending from Oshawa to the Niagara Peninsula including Metropolitan Toronto.

He is photographed outside Mac's East Mall store in Toronto, which not only features the streamlined new design but which also serves as a training centre for incoming store operators.





increased consumer promotional activity, and fine tuning of in-store merchandising, were among the strategies contributing to this success. But the most obvious factor...and, indeed the focal point of 1980 activity...was the continuing roll-out of the new Mac's store design and the introduction of the new Mac's fast food programme.

The intensive planning that went into the new store design is paying off—in enthusiastic customer acceptance, in motivated store operators who appreciate its contemporary selling layout and, most importantly, at the cash register. With stores now divided into four distinct merchandising zones...fast food, family snacks, groceries, and non-foods...customers find what they're looking for more easily, while strategically placed aisles invite further store exploration...and possible purchases. Many individual store operators report substantially increased sales following renovation. All new stores are being built to the new design criteria and the conversion of existing stores continues in Alberta, British Columbia and Ontario. At the end of 1980, 470 of these new stores welcomed customers with their inviting merchandising and vast expanse of unobstructed glass.

Our dealers can't wait to get their new-look stores—and no wonder! Comparing an old store with the new, streamlined Mac's is like comparing night and day.

Stan Hughes

The fresh snacks and sandwiches that are mainstays of the new Mac's Snacks programme are currently available in 300 outlets. This special fast food counter, with its refrigerated display case and microwave oven close by is proving to be extremely popular...with office workers en route to their jobs, with school children and shoppers pausing for a snack in mid-morning, during the afternoon, and at night. The contribution of this programme to overall sales and profits is much greater than it was a year ago; it should make a more significant impact during 1981 when most, if not all, Mac's stores will carry Mac's Snacks.

In summary, all of these strategies and programmes, taken to the marketplace by an expanded group of field representatives and executed with the entrepreneurial flair of our dealers, resulted in a very significant profit improvement over that of 1979...a new record and a very fine year indeed.

We switched to the new store design during operating hours—we didn't need to close. We'd talked so much about it—all my customers were looking forward to it. They overwhelmingly approve and business is up dramatically!

Mattie Hogg

The upcoming year may well be a year of great challenge, but we see it as a year of equally great opportunity. The restraining factors of inflation, unemployment, energy cost increases and inter-governmental malaise will be present in greater measure. But, for Mac's, this will be offset by other challenges: an increase in the number of working women, of single person households, of people on the move, of people eating away from home...in short, more opportunities for our company to be responsive to the needs of the Canadian consumer, and to grow and prosper by serving those needs well.

1981 will see the completion of Mac's store design conversion programme, an extension of Mac's Snacks to most markets, and expansion of our efforts in gasoline retailing, 24-hour photo processing, and our very successful frozen carbonated beverage "Slush Cat" programme. Prototype tests for several new projects are planned, including delicatessens, in-store bakeries, take-out fast food such as pizza or fried chicken, and ice cream merchandising. Capital expenditures within Mac's will total \$7.4 million during the coming year, reflecting our confidence not only in the company, but also in our consumer strength...and in the abilities of our employees and independent and entrepreneurial store operators to meet the needs of consumers throughout Canada.

Mattie Hogg is a Mac's independent contracted dealer in St. Catharines, Ontario. In the decade Mattie has been with Mac's, she has seen a lot of change—but nothing

to compare with the new look and new fast food program. She likes working with Mac's...always has. As she says, "Whatever help I need, I get."

Here...the best hot and cold
snacks you've ever tasted.



Baskin-Robbins

Expansion of the Baskin-Robbins Franchise Store programme was undoubtedly a 1980 highlight...an expansion which saw not only an overall increase in the number of stores but also the spread of these outlets across the country. Along with expansion came sales growth; ice cream gallonage sales per store were up at a time when gallonage growth in the ice cream industry was levelling off. It was, in short, a good year.

During 1980, Baskin-Robbins added a net of 20 new franchises; we now have a total of 95 stores operating in the provinces of Ontario, Quebec and British Columbia. Entry into the Quebec market was achieved successfully during the year.

My wife was first an employee, then an owner. That's how we started. Since then, we've gone from one to four stores, and every year we've seen our sales increase. This is our Tenth Anniversary with Baskin-Robbins. It's a great business!

Jim Mullen

New product development continued to assist our franchisees in 1980 with the introduction of unique new ice cream desserts to complement an already comprehensive and popular Party Dessert line. New product introductions...and our ever-changing 31 ice cream flavours...will continue to give our customers that Baskin-Robbins "31derful feeling."

The coming year will see a continuation of carefully planned growth in all three provinces. Our expansion programme and our existing franchisees will be supported by substantial investment in the marketing and training areas. This continuing emphasis on creative and innovative franchisee support should strengthen our position as a leader in the ice cream retailing industry in Canada.

Baskin-Robbins stores are operated by independent franchisees and their employees; it is a truism that our product could not be the success it is without the right people backing it up. At the end of a very successful year, we at Baskin-Robbins salute our franchisees for their energy and dedication and wish them an even better 1981.

Jim and Connie Mullen, with Kathy O'Rourke, are joint owners of this Baskin-Robbins store in Bramalea—and the Mullens own three others, two in Burlington and one in Stoney Creek.

Kathy, who started with the Mullens four years ago as a part-time employee, was voted "Top Employee" last year and won a trip to Florida to meet other Baskin-Robbins winners.





During 1980, Silverwood Industries turned its attention beyond its historical Canadian business operation to the United States convenience store market with its many new and exciting opportunities for further expansion.

FarrView Limited

In January 1980, Silverwood purchased FarrView Limited, a convenience store chain operating in the Pontiac, Detroit and Battle Creek areas of Michigan. 1980 sales of FarrView totalled \$13,732,414 U.S. and the company ended the year with 14 company-owned Richardson Farm Dairy Stores, 14 company-owned Open Pantry Food Mart outlets, and 8 franchised Open Pantry Food Marts. In spite of extreme unemployment levels in the auto industry-related markets within which FarrView operates, a breakeven operating profit position was achieved for the year.

During 1980, effective retail accounting procedures were established, practical computer systems were installed, inventory management systems improved, and planning for future growth was initiated. No new stores were opened during 1980 as standardized new store design and merchandising formats were developed in preparation for growth in 1981 and the ensuing years.

The outlook for FarrView in 1981 is one of realistic optimism. Store sales and profitability are expected to continue to grow on a per store basis in spite of adverse economic conditions. Expansion plans for the year include the opening of an additional 8 newly designed, energy-efficient locations principally in market areas not directly affected by the auto industry.

Hop-In Food Stores, Inc.

In March 1980, Silverwood Industries acquired a 33 1/3% equity interest in Hop-In Food Stores, Inc. and Eric F. Findlay, Robert S. Maich and William Sagain of Silverwood Industries Limited were elected as additional directors. Hop-In, with its network of 147 convenience stores in the states of Virginia, North Carolina and Tennessee, provides a key opportunity for continued growth. Of the 147 stores, 122 also retail self-service gasoline. Total Hop-In sales approximate \$61 million U.S. annually. Hop-In has experienced through 1980 some softening in business growth due to a combination of a recessionary economy and the gasoline over-supply situation negatively impacting gasoline margins per gallon. In light of Hop-In's performance we continue to view this relationship as a dynamic and sound basis for further penetration of the U.S. convenience store marketplace.

Londonderry continues to be Canada's leading processor of aseptically filled citrus juices and one of the foremost suppliers of supermarket chain and dairy private label and generic bottled juices. In addition to this business, Londonderry sells a line of aseptically filled fruit and vegetable juices (which require refrigeration) and hot pack juices and drinks (which are shelf stable); these are marketed under various brand names—Southern Pride, Florida Pride, Chiquita, and Honeydew, which we co-pack.

In 1980, the diversification we began the previous year continued. Part of this diversification involved additional juices and drinks—from the orange and grapefruit which were the mainstay of the company's operation to apple and grape juices, a vegetable cocktail drink and inexpensive orange, grape, fruit punch and lemonade drinks for the summer trade. At the same time, our successful utilization of innovative plastic packaging continued.

Total sales for 1980 were \$4,662,626, an increase of 12.9% over the previous year. Londonderry's remarkably successful year—despite a levelling off of the bottled segment of the juice/drink market—can be attributed to the line extensions and new generic business, plus increased production efficiencies and stability in the cost of concentrates.

Three Crowns Restaurants

Silverwood Industries made its initial move into the sit-in food-away-from-home sector of the food industry in mid-March 1980 with the purchase of two Three Crowns Restaurants in the Metropolitan Toronto area from Steak and Ale Inc., Dallas, Texas. These restaurants, known for their high quality steaks, seafood, and prime ribs, achieved sales of \$2,659,567 during the latter 9 1/2 months of 1980 despite economic conditions generally unfavourable to virtually all segments of the industry. Since acquisition, extensive modifications have been implemented to broaden the variety of menu items and to provide even greater customer appeal. As a new and experimental component of the Silverwood Industries Retail Group, the Three Crowns venture has provided an added dimension to our company's participation in North American retailing.

Bob Clemens, who holds a Degree in Food Science from Guelph University, is the Plant Co-ordinator at

Silverwood Dairies' 401 Ice Cream Plant in London, Ontario.



For Silverwood Dairies, 1980 was to have been a year devoted to addressing the marketplace, following several years of reconstruction and reorganization to achieve profitability. That goal was in sight when the company was faced with a decision—a decision which would affect our operation for years to come. March 3rd, 1980 was B-Day—the day we acquired Borden Dairy in Ontario.

While many small to medium-sized dairies have joined forces over the years, the Silverwood-Borden merger was one of the largest and most significant ever seen in Canada. For the book value of machinery, equipment and rolling stock, and the hiring of all Borden employees, Borden passed their share of the industry over to Silverwood, making their best effort to move their current accounts to us.

Other dairies may have smaller versions of this equipment, but Silverwood's system—which automatically pipes ice cream ingredients into the big mix tanks—is the only one of its kind in the country right now.

Bob Clemens

The acquisition meant, however, that much of management's time was directed to the physical integration of plants and distribution channels to eliminate duplicate operating costs. Though this integration is now almost completed, the operating losses incurred were unexpectedly high and 1980 showed few of the financial benefits that will soon be realized as a result of the merger. But Borden was not acquired for short-term profitability; the contrary was recognized before the deal was accepted in principle. The two factors which most influenced our decision were, first, that Silverwood had committed itself to staying in the Dairy Industry and, second, that Silverwood Dairies would achieve market share equal to or greater than its major Ontario competitors.

Obviously, the merger of two businesses the size of Silverwood and Borden cannot be achieved without putting an unusual amount of stress on all levels of the organization. The accomplishments of this past year could not have been realized without extraordinary effort from our employees—both management and union alike.

One of the strongest units to emerge from the Silverwood-Borden merger is the Silverwood Ice Cream plant in London, Ontario—one of the

When we decided to make the change from processing to distribution, we had a number of choices. We picked Silverwood, because we thought a lot of the company and its product. Today, our business relationship is stronger than ever.

Clare Armstrong

largest and most efficient plants in Canada. Major capital investment has been completed to accommodate combined volumes. Both Silverwood and Borden have outstanding reputations for marketing ice cream and novelty items across Canada; the merging of product lines under the Silverwood label has resulted in a product line that will serve every retailer and every channel of distribution.

Recent years have seen a move to doing business through a network of Distributors and Franchised Dealers. These are independent, entrepreneurial businessmen who carry out the selling and distribution functions of our business while depending on us for production, marketing and product development. It's a strong and growing alliance that will become even more important in the years ahead.

Thus, after a business acquisition of great significance, we enter 1981 with a market share in Ontario that compares favourably with our two multi-national competitors and the vertically integrated retail chains. In Canada, as in all of North America, the economy has moved from one based on production to one based on consumption. In the coming years, Silverwood Dairies' operation will reflect this shift, moving from its traditional "produce and deliver" base to a renewed position as a marketer of food products to the Canadian consumer.

Clare Armstrong of Armco Dairy Foods Services, a former dairy processor in Midland, Ontario, now distributes the complete Silverwood line of products

in the Midland, Orillia and Barrie areas of Ontario. Our network of independent Distributors is of increasing importance to the Silverwood Dairies operation.



Financial Year in Review

The 1980 fiscal year of Silverwood Industries and its subsidiaries comprises 52 weeks ended December 28, 1980.

Operating earnings of \$3,207,465 in 1980 represent \$2.38 per Class "A" and Class "B" share compared with \$2,982,629 or \$2.22 per share in 1979. There was no extraordinary income in 1980 or 1979.

Annual consolidated sales for 1980 of \$431,676,420 is an increase of \$116,248,536 over 1979. A substantial proportion of this increase resulted from business acquisitions during the year.

Cost of sales in 1980 as a percentage of sales at 76.35 per cent was approximately the same as 1979. Selling, administrative and general expenses showed a marginal increase of 0.29 percentage points. Depreciation and amortization expense at \$5,006,435 in 1980 increased \$589,823 over the previous year. Total interest expense increased from \$1,778,628 in 1979 to \$3,766,882 in 1980 because borrowings throughout 1980 were higher than 1979 and the average rate of interest paid was also higher. The results of operations on a segmented basis is presented in the schedule below.

Capital Expenditures

Regular fixed asset additions in 1980 amounted to \$11,868,795 (1979-\$7,319,917), of which new store and

replacement equipment and the Mac's Snacks fast food programme amounted to \$7.5 million, while Dairy capital replacement and maintenance activities amounted to \$4.4 million. The pattern of 1980 expenditures was substantially affected by business acquisitions during the year. The Borden Dairy business and Three Crowns Restaurants were acquired through asset purchases which amounted to \$5.2 million and \$3.3 million of additional fixed asset costs respectively. Funds were also used for the purchase of 100 per cent of the outstanding shares of FarrView Limited (\$570,936) and the purchase of one-third of the issued shares of Hop-In Food Stores, Inc. (\$3.2 million). Capital lease expenditures were \$1,247,941 for 1980 compared with \$1,884,746 in 1979. Dairies' rolling stock continued to account for a high percentage of total leased equipment acquired.

Balance Sheet Position

A net increase in long-term debt of \$18.5 million to \$28.7 million was mainly used to finance business acquisitions including a portion of the expenses of integrating the former Borden operations which have been deferred. Working capital increased during the year by \$614,000 to \$7.8 million. Shareholders' equity increased in 1980 by \$2.3 million to \$34.0 million at December 28, 1980.

Schedule of Segmented Information

(Audited)
Year ended December 28, 1980
(with comparative amounts for the year
ended December 30, 1979)
(000's)

	Food Processing Group		Retail Group		Elimination		Consolidation	
	1980	1979	1980	1979	1980	1979	1980	1979
Sales to customers outside the enterprise	\$196,443	\$126,334	\$235,233	\$189,094			\$431,676	\$315,428
Intersegment sales	22,714	21,391			\$(22,714)	\$(21,391)		
Total revenue	\$219,157	\$147,725	\$235,233	\$189,094	\$(22,714)	\$(21,391)	\$431,676	\$315,428
Segment operating profit	\$ 3,408	\$ 2,396	\$ 8,275	\$ 6,533			\$ 11,683	\$ 8,929
General corporate expenses ...							2,148	1,619
Interest expense							3,767	1,778
Income tax							2,761	2,549
Share of Net Income of Hop-In Food Stores, Inc.							(200)	
							8,476	5,946
Net income for year							\$ 3,207	\$ 2,983
Total assets	\$ 76,664	\$ 51,196	\$ 51,538	\$ 32,431	\$ (2,751)	\$ (2,591)	\$125,451	\$ 81,036
Depreciation and amortization	\$ 2,632	\$ 2,558	\$ 2,374	\$ 1,859			\$ 5,006	\$ 4,417
Fixed Asset additions	\$ 4,417	\$ 3,094	\$ 7,452	\$ 4,226			\$ 11,869	\$ 7,320

Description of business
The Food Processing Group segment derives its revenue from the processing and sale of milk, ice cream, dairy related products and citrus

juices and drinks.
The Retail Group segment derives its revenue from retail sales of grocery, confectionery, fast food items and restaurant sales.

Consolidated Statement of Income

Year ended December 28, 1980
(with comparative amounts for the year
ended December 30, 1979)

	1980	1979
Sales	\$431,676,420	\$315,427,884
Less:		
Cost of sales	329,594,366	240,639,516
Selling, administrative and general expenses	87,540,562	63,061,799
Depreciation and amortization (note 10(b))	5,006,435	4,416,612
Interest (note 10(c))	3,766,882	1,778,628
	<u>425,908,245</u>	<u>309,896,555</u>
Income before taxes	<u>5,768,175</u>	<u>5,531,329</u>
Taxes on income (note 9):		
Current	24,000	2,261,000
Deferred	<u>2,736,800</u>	<u>287,700</u>
	<u>2,760,800</u>	<u>2,548,700</u>
Income before the following	<u>3,007,375</u>	<u>2,982,629</u>
Share of net income of Hop-In Food Stores, Inc.	<u>200,090</u>	
Net income for year	<u>\$ 3,207,465</u>	<u>\$ 2,982,629</u>
Earnings per Class "A" and "B" shares:		
Net income for year	<u>\$2.38</u>	<u>\$2.22</u>

See accompanying notes

Consolidated Statement of Retained Earnings

Year ended December 28, 1980
(with comparative amounts for the year
ended December 30, 1979)

	1980	1979
Balance, beginning of year	\$24,352,450	\$22,176,441
Add net income for year	<u>3,207,465</u>	<u>2,982,629</u>
	<u>27,559,915</u>	<u>25,159,070</u>
Deduct:		
Dividends declared (65¢ per share in 1980 and 60¢ per share in 1979)		
Class "A"	587,052	541,894
Class "B"	<u>286,787</u>	<u>264,726</u>
	<u>873,839</u>	<u>806,620</u>
Balance, end of year	<u>\$26,686,076</u>	<u>\$24,352,450</u>

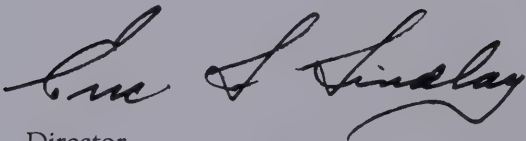
See accompanying notes

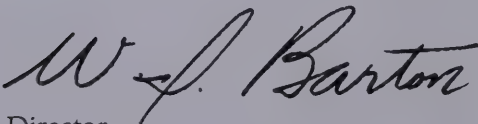
Consolidated Balance Sheet

December 28, 1980
(with comparative amounts at December 30, 1979)

	1980	1979
Assets		
Current:		
Cash	\$ 301,703	\$ 121,028
Marketable securities (note 1(d))	750,000	750,000
Accounts receivable	29,343,117	16,068,134
Inventories (note 1(c))	28,801,533	22,029,439
Prepaid expenses	1,190,073	1,714,578
Total current assets	<u>60,386,426</u>	<u>40,683,179</u>
Investment in Hop-In Food Stores, Inc. (notes 1(a), 1(k) and 3(b))	<u>3,412,827</u>	<u>509,273</u>
Land, buildings and equipment held for sale (note 1(e))	<u>509,273</u>	<u>509,273</u>
Fixed-(notes 1(f) and 4)	<u>50,203,747</u>	<u>32,994,241</u>
Deferred receivables and other assets	1,524,383	918,957
Goodwill (note 1(h))	5,697,442	5,696,764
Deferred expenses (note 1(j))	<u>3,716,812</u>	<u>233,200</u>
	<u>10,938,637</u>	<u>6,848,921</u>
	<u>\$125,450,910</u>	<u>\$81,035,614</u>

On behalf of the Board


Director


Director

See accompanying notes

	1980	1979
Liabilities and Shareholders' Equity		
Current:		
Due to bankers (secured by accounts receivable and inventories).....	\$ 6,426,580	\$ 2,106,093
Accounts payable and accrued charges	43,655,349	26,929,474
Income taxes payable	671	1,470,553
Dividends declared	268,794	201,575
Current portion of long-term debt (note 5(a))	1,291,021	1,990,417
Current portion of obligations under capital lease	952,923	808,247
Total current liabilities	<u>52,595,338</u>	<u>33,506,359</u>
Long-term debt (notes 5(a) and 7)	28,652,277	10,150,848
Obligations under capital lease (notes 1(g) and 5(b))	4,871,701	3,687,040
	<u>33,523,978</u>	<u>13,837,888</u>
Deferred income taxes (note 1(i))	5,245,400	1,997,600
Deferred foreign exchange gain (note 1(k))	<u>58,801</u>	
Shareholders' equity:		
Capital stock (note 6)	7,341,317	7,341,317
Retained earnings (note 7)	26,686,076	24,352,450
Total shareholders' equity	<u>34,027,393</u>	<u>31,693,767</u>
	<u>\$125,450,910</u>	<u>\$81,035,614</u>

Auditors' Report

To the Shareholders of
Silverwood Industries Limited.

We have examined the consolidated balance sheet of Silverwood Industries Limited as at December 28, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial

statements present fairly the financial position of the company as at December 28, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
February 27, 1981,

Clarkson Gordon
Chartered Accountants.

Consolidated Statement of Changes in Financial Position

Year ended December 28, 1980

(with comparative amounts for the year ended December 30, 1979)

	1980	1979
Source of working capital:		
Operations-		
Consisting of:		
Net income for year	\$ 3,207,465	\$ 2,982,629
Add (deduct) items not affecting working capital:		
Depreciation and amortization	5,006,435	4,416,612
Deferred income taxes (note 1(i))	3,247,800	287,700
Share of net income of Hop-In Food Stores, Inc.	(200,090)	
Working capital provided from operations	<u>11,261,610</u>	<u>7,686,941</u>
Proceeds from issuance of floating rate redeemable debentures	16,500,000	
Less long-term debt refinanced	<u>3,836,529</u>	
Net proceeds on disposal of fixed assets		
(including land, buildings and equipment held for sale)	639,799	1,208,412
Decrease in deferred receivables and other assets		1,081,089
Increase in long-term debt	57,568	531,404
Deferred foreign exchange gain	58,801	
Dividends from Hop-In Food Stores, Inc.	<u>43,200</u>	
	<u>24,724,449</u>	<u>10,507,846</u>
Application of working capital:		
Additions to fixed assets-owned	10,620,854	5,435,171
-leased	<u>1,247,941</u>	<u>1,884,746</u>
	<u>11,868,795</u>	<u>7,319,917</u>
Less portion financed by obligations under capital lease	<u>1,247,941</u>	<u>1,884,746</u>
	<u>10,620,854</u>	<u>5,435,171</u>
Purchase of fixed assets under acquisition		
agreements (notes 3(c) and 3(d))	8,502,786	
Less long-term financing (net of current portion of \$1,035,000)	<u>7,050,866</u>	
Investment in Hop-In Food Stores, Inc.	<u>3,255,937</u>	
Acquisition of FarrView Limited, plus working		
capital deficiency of \$238,604 (note 3(a))	809,540	
Increase in deferred receivables and other assets	339,372	
Repayment of long-term debt	2,151,064	3,146,559
Repayment of obligations under capital lease	992,342	853,375
Dividends to shareholders	873,839	806,620
Increase in deferred expenses	3,540,312	87,400
Purchase of goodwill	75,001	
Decrease in deferred income		33,916
	<u>24,110,181</u>	<u>10,363,041</u>
Increase in working capital	614,268	144,805
Working capital, beginning of year	<u>7,176,820</u>	<u>7,032,015</u>
Working capital, end of year	<u>\$ 7,791,088</u>	<u>\$ 7,176,820</u>
Represented by:		
Current assets	\$ 60,386,426	\$ 40,683,179
Current liabilities	<u>52,595,338</u>	<u>33,506,359</u>
Working capital	<u>\$ 7,791,088</u>	<u>\$ 7,176,820</u>
<i>See accompanying notes</i>		

Notes to the Consolidated Financial Statements

December 28, 1980

1. Summary of significant accounting policies

The consolidated financial statements present the financial position, results of operations and changes in financial position of the company in accordance with generally accepted accounting principles applied on a consistent basis. The more important accounting policies are summarized as follows:

(a) **Principles of consolidation**-The consolidated financial statements include the accounts of all subsidiary companies. Intercompany accounts and transactions have been eliminated.

The results of operations of all subsidiaries are included only from the dates of their respective acquisitions.

The investment in Hop-In Food Stores, Inc. is accounted for using the equity method, by which the original cost of the shares is adjusted for the company's share of net income less dividends received.

(b) **Definition of fiscal year**-The fiscal year of Silverwood Industries Limited for 1980 ended on December 28 and for 1979 on December 30 with each fiscal year comprising 52 weeks.

(c) **Inventories**-Inventories are valued at the lower of cost and estimated net realizable value. Cost is determined by the retail method (retail price less normal margin) for convenience stores' inventories and the first-in, first-out method for dairy division and supplies inventories.

Inventory values are as follows:

	1980	1979
Convenience stores	\$15,809,195	\$12,912,647
Dairy division	4,271,745	3,390,037
Supplies	8,720,593	5,726,755
	<u>\$28,801,533</u>	<u>\$22,029,439</u>

(d) **Marketable securities**-Marketable securities are carried at cost. Approximate market values are \$624,000 at December 28, 1980 and \$602,800 at December 30, 1979.

(e) **Land, buildings and equipment held for sale**-Discontinued facilities held for sale are carried at the lower of cost less accumulated depreciation or estimated realizable value and are shown as a separate item in the balance sheet.

(f) **Fixed assets**-Fixed assets are carried at cost. Depreciation and amortization are provided on a straight-line basis using rates that will charge operations with the cost of these assets over their estimated useful lives. When fixed assets are sold, the related cost and accumulated depreciation or amortization are removed from the respective accounts and any profit or loss is reflected in the consolidated statement of income. Expenditures for repairs and maintenance are charged to income as incurred. The depreciation and amortization periods are as follows:

Buildings	20-50 years
Machinery and equipment	10 years
Merchandising equipment	10-12 years
Delivery equipment	7 years
Leasehold improvements	term of lease

(g) **Leases**-Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the property's fair value at the beginning of such lease and the present value of the minimum lease payments. Assets recorded under capital leases are amortized on the same straight-line method described in (f) above. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. The imputed interest is charged to income and included with interest expense.

(h) **Goodwill**-Goodwill includes amounts arising from the excess of purchase price of subsidiaries over the fair market value of the underlying assets and purchased goodwill.

Goodwill acquired prior to January 1, 1974, is carried at cost, less net proceeds from any disposals. Pre-1974 goodwill has been allocated by management to certain geographic areas. The net proceeds on disposal of goodwill reduce first the cost of goodwill in the related geographic area, then any proceeds in excess of cost are accounted for as an extraordinary item in the income statement.

Goodwill acquired after December 31, 1973 is being amortized on a straight-line basis over periods of five to ten years. Amortization for 1980 and 1979 amounted to \$74,323 and \$74,465 respectively.

(i) **Deferred income taxes**-The company follows the tax allocation method of accounting. The deferrals arise substantially from the company claiming capital cost allowance and deferred expenses for income tax purposes in excess of depreciation and amortization charged to consolidated income. Commencing in 1980 prepaid expenses are not allowed as a deduction for income tax purpose; accordingly the company has claimed additional capital cost allowance thereby deferring the 1979 balance of current deferred taxes of \$511,000.

(j) **Deferred expenses**-Deferred expenses consist of the following:

- (i) Expenses incurred in connection with the issue of and amendments to the sinking fund debentures Series A and in connection with the issue of the floating rate redeemable debentures are capitalized in the accounts and amortized on a straight-line basis over the term of the debenture issues.
- (ii) Expenses incurred in connection with the amalgamation (see note 2) are capitalized in the accounts and amortized on a straight-line basis over five years.
- (iii) Expenses amounting to \$3,250,412 incurred in connection with the integration of the Borden operations are capitalized in the accounts and will be amortized on a straight-line basis over five years commencing in 1981.

(k) **Foreign currency translation**-At December 28, 1980 all assets and liabilities of FarrView Limited, a wholly-owned subsidiary, and Hop-In Food Stores, Inc. an equity-accounted investment, are translated from U.S. dollars into Canadian dollars at the year-end rate. Revenue and expenses are translated at the average rates of exchange for the year. Gains or losses which result from translation are deferred on the balance sheet and amortized on a straight-line basis over five years.

2. Amalgamation

On December 31, 1979, the first day of the company's 1980 fiscal year, three subsidiary companies (Mac's Convenience Stores Limited, Londonderry Distributors Limited and Kayesil Limited) were amalgamated with Silverwood Industries Limited under the provisions of The Business Corporations Act (Ontario). The amalgamated company was continued under the name Silverwood Industries Limited.

The company obtained the approval of the amalgamation from the Series A debenture holders on October 12, 1979 and from the shareholders on December 14, 1979.

3. Acquisitions

(a) **FarrView Limited**-On January 17, 1980, the company acquired, for a cash consideration of \$570,936, 100% of the issued and outstanding shares of FarrView Limited, a company operating a chain of convenience stores in the Flint, Michigan area of the United States.

This acquisition has been accounted for using the purchase method, and accordingly the operations and net income are included only from January 17, 1980. Details of the transaction are as follows:

Book value of assets	\$3,739,883
Book value of liabilities	<u>3,917,740</u>
Excess of liabilities over assets	(177,857)
Adjustment of assets to fair value	<u>748,793</u>
	<u>\$ 570,936</u>

(b) **Hop-In Food Stores, Inc.**- On March 27, 1980 the company acquired for \$3,255,937 cash, 200,000 common shares from the treasury stock of Hop-In Food Stores, Inc., being approximately 33% of the issued shares of that company. The underlying net book value of this purchase amounted to approximately \$2,360,000.

The company has agreed to offer to acquire the remaining issued and outstanding common shares of the company at a price of \$17 U.S. per share, on or prior to January 10, 1982, subject to the approval of Hop-In's Board of Directors.

As part of the purchase agreement, the company has agreed to purchase, if required, up to \$3,900,000 U.S. floating rate convertible subordinated debentures of Hop-In Food Stores, Inc. The debentures have a five year term carrying interest equal to the U.S. prime rate at the Bank of Montreal and are convertible into 300,000 additional common shares at a price of \$13 U.S. per share. The debentures may be issued at any date up to February 28, 1982.

As at February 27, 1981 the company had not acquired any additional common shares or any debentures of Hop-In Food Stores, Inc.

(c) **Dairy operations**- On March 1, 1980 the company purchased the operating assets (excluding land, buildings and accounts receivable) of the Ontario dairy operations of The Borden Company, Limited for \$8,371,937 including fixed assets of \$5,147,864, current assets of \$3,224,072 and goodwill of one dollar. The purchase price has been financed as follows:

Cash	\$2,386,071
Term note payable to banker at prime plus 1% interest, due in 1983 and 1984	2,500,000
10 1/2% note payable to The Borden Company, Limited, due January 1, 1983 repayable in quarterly payments of \$254,232	2,862,995
Obligations under capital lease	<u>622,871</u>
	<u>\$8,371,937</u>

(d) **Restaurant Operations**- On March 14, 1980 the company purchased land, buildings and equipment of two Three Crown restaurants for a cash consideration of \$3,354,922.

Subsequently the company obtained mortgages on the land and buildings for \$1,600,000 and obtained financing through a sale-leaseback of the equipment for \$500,000.

4. Fixed assets

The major categories of fixed assets are as follows:

1980	Owned	Leased	Total
Land	\$ 2,544,772		\$ 2,544,772
Buildings	12,954,674		12,954,674
Machinery and equipment	19,737,282	\$1,685,310	21,422,592
Merchandising equipment	31,109,735	1,991,124	33,100,859
Delivery equipment	6,397,280	5,098,623	11,495,903
Leasehold improvements	<u>8,564,932</u>		<u>8,564,932</u>
	81,308,675	8,775,057	90,083,732
Less accumulated depreciation and amortization	<u>37,194,391</u>	<u>2,685,594</u>	<u>39,879,985</u>
Net book value ..	<u>\$44,114,284</u>	<u>\$6,089,463</u>	<u>\$50,203,747</u>

1979	Owned	Leased	Total
Land	\$ 1,340,171		\$ 1,340,171
Buildings	9,923,832		9,923,832
Machinery and equipment	15,382,291	\$1,551,291	16,933,582
Merchandising equipment	24,461,418	868,253	25,329,671
Delivery equipment	5,517,153	3,984,701	9,501,854
Leasehold improvements	<u>5,625,282</u>		<u>5,625,282</u>
	62,250,147	6,404,245	68,654,392
Less accumulated depreciation and amortization	<u>33,775,074</u>	<u>1,885,077</u>	<u>35,660,151</u>
Net book value ..	<u>\$28,475,073</u>	<u>\$4,519,168</u>	<u>\$32,994,241</u>

5. Long-term debt and obligations under capital lease

(a) **Long-term debt**-The details of long-term debt are as follows:

	1980	1979
Term notes payable to bankers:		
Prime plus 1%-1 1/2% due 1981 to 1984	*\$3,626,500	\$6,219,529
12 1/8%-13% due 1981 to 1983	*72,300	
Other term notes payable at 9%-11 3/4% due 1981 to 1984	*412,374	
10 1/2% note payable to The Borden Company, Limited due January 1, 1983 repayable in quarterly payments of \$254,232	*2,288,104	
8% (7 1/4% prior to October 6, 1979) sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of \$400,000 per annum) ..	**4,295,000	4,759,500
Floating rate redeemable debentures at prime plus 1/4% interest, due February 22, 2000	***16,500,000	
9 1/4%-14 1/4% mortgages payable	2,552,057	926,975
Lease deposits	<u>196,963</u>	<u>235,261</u>
	29,943,298	12,141,265
Less portion due within one year included in current liabilities net of debentures redeemed in advance	<u>1,291,021</u>	<u>1,990,417</u>
	<u>\$28,652,277</u>	<u>\$10,150,848</u>

Aggregate non-current maturities and sinking fund requirements are as follows:

Year ended	Amount
December 26, 1982	\$ 1,858,986
January 1, 1984	2,426,625
December 30, 1984	2,399,995
December 28, 1985	1,431,785
Subsequent years	<u>20,534,886</u>
	<u>\$28,652,277</u>

*The assets of two subsidiary companies (subject to first mortgages thereon) are pledged under floating charge debentures as security for term notes of these subsidiaries totalling \$6,287,234.

**Security for the sinking fund debentures Series A includes an assignment of a first floating charge on the assets of the parent company and a specific charge on its real property.

***Security for the floating rate redeemable debentures includes a floating charge on all the assets of the company subject to and subordinated to prior charges of the Series A debenture holders and subject to mortgages on certain properties and all assets under capital lease.

The floating rate redeemable debentures are subject to the following repayment terms:

- (i) Repayments of amounts not exceeding \$10,000,000 in aggregate are permitted between February 22, 1982 and February 22, 1983.
- (ii) Repayments of amounts are permitted after February 22, 1983, provided that each payment is not less than \$500,000 with provision for additional amounts in \$100,000 increments.
- (iii) Sinking fund repayments are required at the rate of 7 1/2% of the balance outstanding on December 31, 1987 for each year from 1988 to 1999 inclusive with the balance due in year 2000.

(b) **Obligations under capital lease**-Non-current maturities of these obligations are as follows:

December 26, 1982.....	\$1,551,864
January 1, 1984.....	1,326,037
December 30, 1984.....	1,184,030
December 28, 1985.....	1,093,726
Subsequent years to 1990.....	1,823,214
	<u>6,978,871</u>
Less imputed interest	<u>2,107,170</u>
	<u>\$4,871,701</u>

These obligations are due at various dates up to 1990 with imputed annual interest rates varying from 6.24% to 18.72%.

6. Capital Stock

The details of the capital stock for 1980 and 1979 are set out below:

Class "A" shares without par value entitled to cumulative, preferential dividends of 60¢ per share per annum payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquidation to a priority of \$15 per share Class "B" shares without par value.

	Class "A"	Class "B"	
Authorized	1,000,000 shares	500,000 shares	
Issued	903,158 shares	441,212 shares	<u>\$7,341,317</u>

7. Restrictions on payment of dividends

Under the provision of the Trust Indentures securing the 8% (7 1/4% prior to October 6, 1979) sinking fund debentures Series A and the floating rate redeemable debentures, the company cannot declare or pay dividends under the following circumstances (other than stock dividends and dividends at the rate of 60¢ per share per annum on the outstanding Class "A" shares of the company):

- (i) when the consolidated retained earnings of the company and certain of its subsidiaries as designated under the Series A Trust Indenture are less than the lesser of 75% of the principal amount of all funded obligations of the company and its designated subsidiaries or \$7,500,000;
- (ii) when, subsequent to December 31, 1978, the aggregate amount of dividends and redemption of shares exceed the aggregate amount of the consolidated after-tax income of the company and its designated subsidiaries and proceeds on issue of shares.

The company is in compliance with the covenants of both the Series A Trust Indenture, and the Floating Rate Trust Indenture.

8. Operating lease agreements and commitments

(a) **Operating lease agreements**-Silverwood Industries Limited and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 1990 at total maximum aggregate net rentals of approximately \$73,787,319. Minimum annual net rentals which will be charged to consolidated operations in the ordinary course of business in subsequent years for leases in effect at December 28, 1980 are as follows:

December 27, 1981.....	\$11,604,845
December 26, 1982.....	11,010,994
January 1, 1984.....	10,482,499
December 30, 1984.....	9,632,560
December 28, 1985.....	8,829,679

Certain of these leases provide for additional rent based on sales.

(b) **Pensions**-The actuaries have advised the company that there is no unfunded liability at December 28, 1980. Current service costs are funded and charged to operations as they accrue.

9. Taxes on income

Taxes on income have been reduced by \$300,000 in 1980 and by \$250,000 in 1979 by claiming the 3% inventory allowance as permitted under the Income Tax Act, Canada.

10. Statutory and other information

(a) **Remuneration of directors and senior officers**-Aggregate direct remuneration paid or payable by the company and its subsidiaries to directors, who act only in that capacity, and senior officers, some of whom act as directors of the company but do not receive additional remuneration as such, as defined by Section 178(11) of The Business Corporations Act of Ontario, amounted to:

	1980	1979
Directors.....	\$ 38,800	\$ 37,400
Senior officers	<u>749,303</u>	<u>548,837</u>
	<u>\$788,103</u>	<u>\$586,237</u>

(b) **Depreciation and amortization**-Depreciation and amortization includes charges to income for the following:

	1980	1979
Fixed assets		
Owned.....	\$4,067,007	\$3,737,767
Leased.....	<u>800,517</u>	<u>582,380</u>
Goodwill and deferred expenses	<u>138,911</u>	<u>96,465</u>
	<u>\$5,006,435</u>	<u>\$4,416,612</u>

(c) **Interest expense**-Interest expense includes the following charges (credits) to income:

	1980	1979
Long-term debt.....	\$2,739,671	\$1,432,448
Obligations under capital lease.....	<u>587,484</u>	<u>360,942</u>
Short-term debt.....	<u>503,344</u>	<u>465,341</u>
Interest income from deposits and investments	<u>(63,617)</u>	<u>(418,813)</u>
Interest income from other sources	<u>\$3,766,882</u>	<u>\$1,778,628</u>

(d) **Segmented information**-The directors of the Corporation have determined at a meeting of directors the company's classes of business and have recorded them in the minutes of the meeting. The audited information with respect to these classes is an integral part of the financial statements and is outlined on page 14 under the heading of Schedule of Segmented Information. Separate disclosure by geographic location has not been presented as it is not considered to be significant.

11. Subsequent event

Subsequent to the year-end the company entered into an agreement to purchase land and buildings, located on Lawrence Avenue East in Toronto, from The Borden Company, Limited for \$6,800,000. The purchase is to be financed by bank indebtedness of \$2,000,000 and \$4,800,000 by 13% note due January 15, 1982.

Ten Year Comparative Summary

	1980	1979	1978
Sales	\$431,676,420	315,427,884	294,341,803
Income before extraordinary item	\$ 3,207,465	2,982,629	1,518,558*
Net income for year	\$ 3,207,465	2,982,629	1,518,558*
Income for each Class "A" and "B" share before extraordinary item	\$ 2.38	2.22	1.13
Net income for each Class "A" and "B" share for year	\$ 2.38	2.22	1.13
Dividends	\$ 873,839	806,620	806,620
Per Class "A" share	\$.65	.60	.60
Per Class "B" share	\$.65	.60	.60
Percentage of consolidated earnings paid in dividends	27.2%	27.0%	53.1%
Earnings re-invested in the business	\$ 2,333,626	2,176,009	711,938*
Percentage of earnings re-invested in the business	72.8%	73.0%	46.9%
Capital invested			
Long-term debt	\$ 33,523,978	13,837,888	15,421,672*
Shareholders' equity	\$ 34,027,393	31,693,767	29,517,758*
Total	\$ 67,551,371	45,531,655	44,939,430*
Percentage of shareholders' equity to total investment	50.4%	69.6%	65.7%
Shareholders' equity per share	\$ 25.31	23.58	21.96
Working capital	\$ 7,791,088	7,176,820	7,032,015*

1980-Fifty-two weeks ended December 28, 1980

1979-Fifty-two weeks ended December 30, 1979

1978-Fifty-two weeks ended December 31, 1978

1977-Fifty-three weeks ended January 1, 1978

1972-1976-Fifty-two weeks ended approximately the end of December in each year

** 1972-Fifty-two weeks ended January 2, 1972

* Restated for capital leasing

1977	1976	1975	1974	1973	1972	**1972
265,866,529	238,234,978	261,326,735	229,080,262	189,207,993	172,001,680	162,629,505
561,926	559,057	1,881,886	1,354,921	2,204,189	1,247,582	1,504,587
2,086,126	2,153,708	2,306,639	1,645,750	2,452,100	1,762,700	1,538,348
.42	.42	1.40	1.01	1.64	.93	1.12
1.55	1.60	1.72	1.22	1.82	1.31	1.14
806,620	1,008,277	1,075,496	1,075,496	1,075,496	1,075,496	1,075,496
.60	.75	.80	.80	.80	.80	.80
.60	.75	.80	.80	.80	.80	.80
38.7%	46.8%	46.6%	65.3%	43.9%	61.0%	69.9%
1,279,506	1,145,431	1,231,143	570,254	1,376,604	687,204	462,852
61.3%	53.2%	53.4%	34.7%	56.1%	39.0%	30.1%
14,212,419	14,903,941	13,440,267	13,149,557	12,104,719	12,684,757	11,007,652
28,825,893	27,546,387	26,400,956	25,169,813	24,599,559	23,222,955	22,535,751
43,038,312	42,450,328	39,841,223	38,319,370	36,704,278	35,907,712	33,543,403
67.0%	64.9%	66.3%	65.7%	67.0%	64.6%	67.1%
21.44	20.49	19.64	18.72	18.30	17.27	16.76
6,710,906	8,179,863	5,110,055	2,671,837	3,339,964	3,929,331	3,274,310

Directors and Officers

DIRECTORS

W.I. Barton †

London, Ontario

G.M. Carlyle

President

The Quest for Handcrafts

Canada Ltd.

Calgary, Alberta

J. Trevor Eyton, Q.C.

President Brascan Limited

Toronto, Ontario

Eric F. Findlay *†

Toronto, Ontario

Robert S. Maich

Toronto, Ontario

R.G. Pardy †

London, Ontario

W.P. Pigott *

President

Pigott Construction Limited

Hamilton, Ontario

W. Sagain

Toronto, Ontario

W.A. Stewart†

London, Ontario

J. Allyn Taylor *†

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The Canada Trust Company

London, Ontario

Donald H. Thain *†

Professor, School of Business

Administration

University of Western

Ontario

London, Ontario

David B. Weldon *†

Chairman of the Board

Midland Doherty Limited

Toronto, Ontario

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Chairman of the Board

President and Chief

Executive Officer

R.S. Maich

Executive Vice-President

Retail Group

R.G. Pardy

Vice-President Finance

W. Sagain

Vice-President

Corporate Development

G.R. Carton, Q.C.

Secretary and Vice-

President Legal and

Corporate Affairs

W.I. Barton

Vice-President

D.A. Pettit

Treasurer

B.L. Schemmer

Assistant Secretary and

Associate General Counsel

A.E. Lawrence, Jr.

Assistant Treasurer

R.C. Ferguson

Controller

HONORARY DIRECTORS

A.E. Lawrence, Sr.

London, Ontario

H.T. Spettigue

London, Ontario

C.L. Tulloch

London, Ontario

*Audit Committee

†Executive Committee

Operating Divisions

MAC'S CONVENIENCE
STORES INC.

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Scarborough, Ontario

R.S. Maich
President

R.F. Egerdie
Executive Vice-President

J. DeWit
Vice-President
Eastern Region

R.C. Broadhead
Vice-President
Merchandising

B.J. Livingston
Vice-President Real Estate

E.C. Higgins
Vice-President
Corporate Development

K.F. Sanford
Treasurer

R.M. Smith
General Manager
Western Region

BASKIN-ROBBINS
31 FLAVOUR ICE
CREAM STORES

Toronto, Ontario

C.F. Findlay
Regional Director

K.M. Hammond
Controller

N.W. Sanderson
Manager, Administration

D.G. Seebach
Manager, Franchising

J.H. Murchison
Manager,
Purchasing

R.C. Newton
Manager, Store Operations

B.J.F. O'Dacre
Manager, Store Planning

FARRVIEW LIMITED

Flint, Michigan

J. DeWit
President

K.S. Thomson
Vice-President

K.F. Sanford
Secretary-Treasurer

C.A. Androsky
Controller

RESEARCH AND
DEVELOPMENT

London, Ontario

A.G. Sargent
Director

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DISTRIBUTORS INC.

Toronto, Ontario

W.L. Wilson
Vice-President and
General Manager

J.W. Payne
Accountant

D.T. Sansone
Production Manager

SILVERWOOD DAIRIES
LIMITED

Head Office
Mississauga, Ontario

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President

A.C. Denny
Vice-President
Finance

T.F. Kotschorek
Vice-President
Corporate Planning
Marketing & Sales

W.W. Pascoe
Vice-President
Plant & Engineering
and Vice-President
Central Ontario

P.C. Nieuwenhuyzen
Vice-President
Eastern Ontario

R.J. Pylypiw
Vice-President
Western Ontario

D.E. Coe
Vice-President
General Manager
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The Canada Trust Company
Toronto, Calgary &
Vancouver

AUDITORS

Clarkson Gordon
Chartered Accountants
London, Ontario

ANNUAL MEETING

May 7, 1981 - 2:00 p.m.
London, Canada

